

Google's slowing ad sales trump record 2Q profit

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In this photo from Wednesday, May 27, 2009, a man rides an escalator at the Google I/O 2009 web developers conference in San Francisco. Google Inc. is expected to release second-quarter earnings Thursday, July 16, 2009. (AP Photo/Jeff Chiu)

(AP) -- Google Inc. made more money than ever in the second quarter, even though its revenue growth slowed like never before.

The latter part of that paradox bothered investors, causing [Google](#) shares to fall \$14.62, or 3.3 percent, to \$427.98 in extended trading Thursday after the second-quarter results were released.

The market's negative reaction largely reflected the high expectations surrounding Google. Since falling below \$300 in early March, its stock price had surged by about 50 percent, reflecting Wall Street's faith in the company's ability to sell more online ads even as the United States slogs through its worst [recession](#) since World War II.

For the most part, Mountain View-based Google has delivered. Its second-quarter profit rose 19 percent to \$1.48 billion, or \$4.66 per share - the highest net income for any three-month period since Google went public in five years ago.

Google pulled it off largely by making the first major cuts to its payroll, getting rid of employee freebies like bottled water and dramatically reducing its spending on data centers and other long-term projects.

The frugality has helped Google overcome its decelerating revenue growth during the past year. The pace slackened again in the second quarter as revenue rose just 3 percent to \$5.52 billion.

It marked Google's second straight quarter of single-digit revenue growth, an unsettling trend at a company that hadn't fallen below a 30 percent gain until the final three months of last year.

"They are pulling more levers than they have had to in the past and that's a sign of a mature company," said Brigantine Advisors analyst Colin Gillis. "People don't like that because Google is supposed to be a growth company."

Because it runs the Internet's most widely used marketing channel, Google's lackluster revenue growth could foreshadow even more significant sluggishness among less profitable companies fueled by online advertising and e-commerce. Many of those companies, including Yahoo Inc., will detail what happened in their second quarters in the coming weeks.

Although the U.S. recession has been making it increasingly difficult for Google to sell ads, Chief Executive Eric Schmidt said he doesn't expect the business climate to become any more challenging.

"We're not at the moment looking at that downward spiral that we thought we might see six months ago," Schmidt told analysts during a Thursday conference call. The remarks echoed comments made to reporters last week when he said the recession had already appeared to hit bottom.

If not for stock compensation expenses, Google said it would have made \$5.36 per share. That topped the average estimate of \$5.09 per share among analysts polled by Thomson Reuters.

After subtracting ad commissions, Google's net revenue totaled \$4.1 billion - about \$40 million above analyst estimates.

The revenue would have been about \$375 million higher if the dollar hadn't strengthened during the past year, according to Patrick Pichette, Google's chief financial officer. Google's finances swing with currency fluctuations because 53 percent of the company's sales come from outside the United States.

With the recession and the dollar working against it, Google tightened its belt another notch to boost its profits. For instance, the company trimmed its general and administrative expenses by 23 percent to save about \$110 million and reduced its spending on capital projects by 80 percent, or \$559 million.

Gillis is worried Google's penny pinching may be one of the reasons that some of the company's services, including its e-mail, have been suffering outages more frequently in recent months.

But Pichette said in a Thursday interview that Google isn't skimping on technology. "We continue to fund everything we want to do."

Google ended June with 19,786 employees, 378 fewer than at the end of

March. Although relatively small, the reduction is still notable for company that added more than 17,000 workers from the start of 2005 through the end of last year. Pichette said Google is still hiring.

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